

Date: 11/19/19

2019 Fall National Meeting
Austin, Texas

PROPERTY AND CASUALTY RISK-BASED CAPITAL (E) WORKING GROUP

Sunday, December 8, 2019

1:00 – 2:00 p.m.

JW Marriott Austin—Lone Star Ballroom DE—3rd Level

ROLL CALL

Tom Botsko, Chair	Ohio
Richard Ford	Alabama
Susan Bernard/Giovanni Muzzarelli	California
Mitchell Bronson	Colorado
Wanchin Chou/Susan Andrews	Connecticut
Robert Ridenour	Florida
Judy Mottar	Illinois
Anna Krylova	New Mexico
Gloria Huberman/Sak-man Luk	New York
Will Davis	South Carolina
Nicole Elliott/Miriam Fisk	Texas
Randy Milquet	Wisconsin

NAIC Support Staff: Eva Yeung/Jane Barr

AGENDA

1. Consider Adoption of its Nov. 8 Minutes—*Tom Botsko (OH)* Attachment A
2. Consider Adoption of the Report of the Catastrophe Risk (E) Subgroup—*Tom Botsko (OH)* Attachment B
3. Discuss the 2020 Property/Casualty (P/C) Risk-Based Capital (RBC) Working Agenda—*Tom Botsko (OH)* Attachment C
4. Consider Exposure of Proposal 2018-19-P (Vulnerable 6 or Unrated Risk Charge)—*Tom Botsko (OH)* Attachment D
5. Discuss the Possibility of Using the NAIC as a Centralized Location for Reinsurer Designations—*Tom Botsko (OH)*
6. Discuss the Possible Treatment of the R3 Related to the Runoff Companies and Captive Companies—*Tom Botsko (OH)*
7. Discuss Any Other Matters Brought Before the Working Group—*Tom Botsko (OH)*
 - a. Monoline Mortgage Guaranty Insurers
 - b. Restructuring Mechanisms (E) Subgroup
8. Adjournment

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Draft: 11/12/19

Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup
Conference Call
November 8, 2019

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met via conference call Nov. 8, 2019, in joint session with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force. The following Working Group members participated: Tom Botsko, Chair (OH); Susan Bernard (CA); Mitchell Bronson (CO); Wanchin Chou (CT); Robert H. Lee (FL); Judy Mottar (IL); Sakman Luk (NY); Anna Krylova (NM); Miriam Fisk (TX); and Randy Milquet (WI). The following Subgroup members participated: Tom Botsko, Chair (OH); Robert H. Lee, Vice Chair (FL); Susan Bernard (CA); Mitchell Bronson (CO); Wanchin Chou (CT); Judy Mottar (IL); Anna Krylova (NM); and Miriam Fisk (TX). Also participating were: Vincent Gosz (AZ); Julie Lederer (MO); and Steve Drutz (WA).

1. Adopted the Catastrophe Risk (E) Subgroup's Summer National Meeting Minutes

Mr. Botsko said the Catastrophe Risk (E) Subgroup met Aug. 2 and took the following action: 1) heard a presentation from AIR Worldwide (AIR) on how the aggregate exceedance probability (AEP) and occurrence exceedance probability (OEP) curves are created based on the AIR modeling results; and 2) heard a presentation from Risk Management Solutions (RMS) on how the AEP and OEP are calculated and a comparison of the results.

Ms. Krylova made a motion, seconded by Ms. Mottar, to adopt the Subgroup's Aug. 2 minutes (*see NAIC Proceedings – Summer 2019, Capital Adequacy (E) Task Force, Attachment Four-B*). The motion passed unanimously.

2. Adopted the Property and Casualty Risk-Based Capital (E) Working Group's Summer National Meeting Minutes

Mr. Botsko said the Property and Casualty Risk-Based Capital (E) Working Group met Aug. 4 and took the following action: 1) adopted its May 17 minutes; 2) adopted the report of the Catastrophe Risk (E) Subgroup; 3) adopted the Property/Casualty (P/C) Risk-Based Capital (RBC) newsletter; and 4) exposed proposal 2019-11-P, which clarifies to instructions regarding Lloyd's of London and proposal 2019-12-P, which removes PR035 adjustment for reinsurance penalty.

Mr. Milquet made a motion, seconded by Mr. Luk, to adopt the Working Group's Aug. 4 minutes (*see NAIC Proceedings – Summer 2019, Capital Adequacy (E) Task Force, Attachment Four*). The motion passed unanimously.

3. Adopted Proposal 2019-11-P (Clarification to Instructions Regarding Lloyd's of London) and the 2019 Reporting Guideline

Mr. Botsko said upon review of 2018 Annual Statement Schedule F, Part 3 filings, it was observed that many filers reported reinsurance recoverable amounts due from Lloyd's of London syndicates as NAIC 6 – unrated; therefore, they are subject to the highest R3 charge. He stated that the purpose of this proposal is to clarify that the reinsurance recoverable from individual syndicates of Lloyd's of London that are covered under the Lloyd's Central Fund may use the lowest financial strength group rating received from an approved rating agency. He said that because the deadline for the change of the 2019 RBC instructions has passed, a guideline for 2019 RBC reporting will be posted to the Working Group's web page pending the proposal's adoption by the Working Group. He also stated that the Working Group received no comments during the exposure period.

Mr. Chou made a motion, seconded by Mr. Milquet, to adopt the guidance for 2019 RBC reporting. The motion passed unanimously.

Mr. Milquet made a motion, seconded by Ms. Krylova, to adopt proposal 2019-11-P. The motion passed unanimously.

4. Adopted Proposal 2019-12-P (Remove PR038 Adjustment for Reinsurance Penalty)

Mr. Botsko said that because the computation of RBC charge for reinsurance recoverable has been moved to the Annual Statement Schedule F, Part 3 in 2018 reporting, the adjustment for reinsurance penalty for affiliates applicable to Schedule F in PR038 is no longer needed. He stated that the purpose of this proposal is to eliminate the adjustment for reinsurance penalty

for affiliates applicable to Schedule F section in PR038. Mr. Botsko also said the Working Group received no comments during the exposure period.

Mr. Chou made a motion, seconded by Mr. Milquet, to adopt proposal 2019-12-P. The motion passed unanimously.

5. Exposed the 2019 Catastrophe Event Lists

Mr. Botsko said that in order to avoid double-counting the catastrophe losses in the RBC formula, the U.S. and non-U.S. catastrophe event lists provide a routine annual update for those catastrophe events that should be excluded from the R5 calculation.

The Working Group and the Subgroup agreed to expose the 2019 catastrophe event lists for a 14-day public comment period ending Nov. 22.

6. Heard Updates from the Academy on Reviewing the Underwriting Risk Components

Lauren Cavanaugh (American Academy of Actuaries—Academy) said a scope letter from the Academy that was provided in May listed three elements that the Academy is currently researching: 1) investment income adjustment (IIA); 2) loss concentration factor (LCF) and premium concentration factor (PCF); and 3) line of business (LOB) underwriting (UW) risk factors. She anticipated that the Academy will provide three reports to the Working Group for consideration in next year. The updated LOB UW risk factor report will be provided at the 2020 Spring National Meeting; the IIA report will be presented at the 2020 Summer National Meeting; and the LCF and PCF report will be discussed at the 2020 Fall National Meeting.

7. Discussed the Appropriate Factor of Unrated Uncollateralized Recoverables

Mr. Botsko said during the Summer National Meeting, the Working Group discussed an issue as to whether there should be a factor change for uncollateralized unrated reinsurance recoverable from captives, risk retention groups (RRGs), solvent run-off reinsurers, and fully collateralized/funds held/sidecars/cat bonds reinsurers. Ralph Blanchard (Travelers) recommended that the Working Group consider a separate category for run-off companies in its groupings for the purpose of setting reinsurance recoverable RBC charges, as the charge should not be too high for the run-off companies. He also stated that the factors quoted from rating agencies appear to be selections rather than being purely data driven. Those selections appear to be excessively conservative for a solvency-regulated run-off company. W. Scott Williamson (Reinsurance Association of America—RAA) said Mr. Luk presented an impact analysis of changing the R3 factor for uncollateralized unrated balances under a variety of options ranging from 10–30% at the Summer National Meeting. He said the analysis may be able to assist the state insurance regulators to determine what the appropriate factor should be. Mr. Botsko urged the Working Group members and the interested parties to consider whether to: 1) consider a separate category for run-off companies; 2) make any change on the factors; and 3) phase-in any agreed upon change to the factor. Discussion will be continued at the Fall National Meeting.

8. Discussed the Factor of Using AEP Basis vs. OEP Basis

Mr. Botsko said that based on the RMS presentation at the Summer National Meeting, low frequency of earthquake peril leads to a small gap between the OEP and AEP factors, whereas a higher tendency for the clustering of hurricane peril leads to a slightly higher tendency on both factors. Also, the OEP to AEP factor for severe convective storms is higher than almost all other perils. In conclusion, the factors to adjust OEP to AEP depend on: 1) peril; 2) geographic scope; 3) portfolio composition; and 4) insurance structure. Mr. Botsko asked all the interested parties to think about this issue and provide thoughts to the Subgroup at the Fall National Meeting.

9. Discussed Other Matters

Mr. Botsko said the Subgroup and the Working Group will meet at the Fall National Meeting to continue discussing all the outstanding items. Mr. Chou said the Health Risk-Based Capital (E) Working Group is currently working on the changes in the health test. He said a referral would be sent to the Working Group in the near future.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup adjourned.

ATTACHMENT B PENDING

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2020 #	Owner	2020 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Carry-Over Items Currently being Addressed – P&C RBC							
13	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:			
			Year-end 2020	a) Evaluate other catastrophe risks for possible inclusion in the charge - determine whether to recommend developing charges for any additional perils, and which perils or perils those should be.			
			Year-end 2020	b) Evaluate the AEP vs OEP factors.			
14	P&C RBC WG	1	Year-end 2020 or later	Evaluate a) the current growth risk methodology whether it is adequately reflects both operational risk and underwriting risk; b) the premium and reserve based growth risk factors either as a stand-alone task or in conjunction with the ongoing underwriting risk factor review with consideration of the operational risk component of excessive growth; c) whether the application of the growth factors to NET proxies adequately accounts for growth risk that is ceded to reinsurers that do not trigger growth risk in their own right.	Refer from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018
15	P&C RBC WG	1	Year-end 2020	Evaluate the impact to RBC on a) Pre-Tax vs. After Tax; b) Tax reform on Total Adjusted Capital			1/25/2018
16	P&C RBC WG	1	2020 Summer Meeting or later	Continue development of RBC formula revisions based on the Covered Agreement: 'a) consider eliminating the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers; 'b) consider whether the factor for uncollateralized, unrated reinsurers, runoff and captive companies should be adjusted c) Evaluate the possibility of using NAIC as a centralized location for reinsurer designations.		12/5/19 - The WG exposed Proposal 2018-19-P (Vulnerable 6 or unrated risk charge) for a 30-day exposure period.	8/4/2018
17	P&C RBC WG	1	Year-end 2021 or later	Evaluate the proposed changes from the Affiliated Investment Ad Hoc Group related to P/C RBC Affiliated Investments			6/10/2019
18	P&C RBC WG	1	2021 Summer Meeting or later	Continue working with the Academy to review the methodology and revise the underwriting (Investment Income Adjustment, Loss Concentration, LOB UW risk) charges in the PRBC formula as appropriate.			6/10/2019
Carry-Over Items not Currently being addressed - P&C RBC							
New Items – P&C RBC							
18	P&C RBC WG	2	Year-end 2020 or later	Evaluate the proposed changes from the Investment Risk-Based Capital WG related to Bond changes in the P/C formula		8/4/19 – the PCRBCWG did not receive any comments on the proposed structure and risk factors. The WG forwarded the proposal to the IRBC WG	6/10/2019
19	Cat Risk SG	1	Year-end 2020 or later	Evaluate the possibility of allowing additional third party models to calculate the cat model losses			12/6/2019

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Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Operational Risk (E) Subgroup |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input checked="" type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Stress Testing (E) Subgroup |

DATE: <u>12/3/2018</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2018-19-P</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2020</u>
EMAIL ADDRESS: <u>eyeung@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>P/C RBC WG</u>	<input type="checkbox"/> ADOPTED _____
NAME: <u>Tom Botsko</u>	<input type="checkbox"/> REJECTED _____
TITLE: <u>Chair</u>	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: <u>Ohio Department of Insurance</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
ADDRESS: <u>50 W. Town Street, Third Floor – Suite 300</u>	<input type="checkbox"/> EXPOSED _____
<u>Columbus, OH 43215</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|---|---|--|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input type="checkbox"/> Life RBC Instructions |
| <input type="checkbox"/> Fraternal RBC Blanks | <input type="checkbox"/> Health RBC Instructions | <input checked="" type="checkbox"/> Property/Casualty RBC Instructions |
| <input type="checkbox"/> Life RBC Blanks | <input type="checkbox"/> Fraternal RBC Instructions | <input type="checkbox"/> OTHER _____ |

DESCRIPTION OF CHANGE(S)

Modify the instruction to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance.

REASON OR JUSTIFICATION FOR CHANGE **

1. The factor for reinsurance recoverable from uncollateralized, unrated reinsurers is being updated to move towards a charge that is more aligned with risk-indicated factors used by the ratings agencies.
2. With respect to the broader implementation of the Covered Agreement, the PCRBC WG identified the need to eliminate the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers.

Additional Staff Comments:

** This section must be completed on all forms.

Revised 11-2013

PR012 - Credit Risk for Receivables

Reinsurance Recoverables

Detail Eliminated To Conserve Space

For the purpose of the credit risk-based capital charge, the equivalent rating category assigned will correspond to current financial strength rating received from an approved rating agency as outlined in the table below. Ratings shall be based on interactive communication between the rating agency and the assuming insurer and shall not be based solely on publicly available information. If the reinsurer ~~is unauthorized and~~ does not have at least one financial strength rating, it should be assigned the “Vulnerable 6 or Unrated ~~Unauthorized~~” equivalent rating. ~~If the reinsurer is authorized and does not have at least one financial strength rating, it should be assigned the “Unrated Authorized Reinsurers” equivalent rating.~~ Amounts recoverable from unrated voluntary pools should be assigned the “Secure 3” equivalent rating. An authorized association including incorporated and individual unincorporated underwriters or a member thereof may utilize the lowest financial strength group rating received from an approved rating agency. The table below shows the R3 reinsurer equivalent rating categories and corresponding factors for A.M. Best, Standard and Poor’s, Moody’s and Fitch ratings.

Reinsurer Designation Equivalent Rating Category and Corresponding Factors—For RBC R3 Credit Risk Charge							
Description	Secure 1	Secure 2	Secure 3	Secure 4	Secure 5	Vulnerable 6 or Unauthorized Unrated	Unrated Authorized Reinsurers
Best	A++	A+	A	A-	B++, B+	B, B-, C++, C+, C, C-, D, E, F	-----
S&P	AAA	AA+, AA, AA-	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	-----
Moody's	Aaa	Aa1, Aa2, Aa3	A1, A2	A3	Baa1, Baa2, Baa3	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C	-----
Fitch	AAA	AA+, AA, AA-	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	-----
Collateralized Amounts Factors	3.6%	4.1%	4.8%	5.0%	5.0%	5.0%	5.0%
Uncollateralized Amounts Factors	3.6%	4.1%	4.8%	5.3%	7.1%	14.0% 14%	10.0%

Detail Eliminated To Conserve Space

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p style="text-align: right;">DATE: <u>12/3/18</u></p> <p>CONTACT PERSON: <u>Eva Yeung</u></p> <p>TELEPHONE: <u>816-783-8407</u></p> <p>EMAIL ADDRESS: <u>eyeung@naic.org</u></p> <p>ON BEHALF OF: <u>P/C RBC WG</u></p> <p>NAME: <u>Tom Botsko</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50 W. Town Street, Third Floor – Suite 300</u> <u>Columbus, OH 43215</u></p>	<p style="text-align: center;"><u>FOR NAIC USE ONLY</u></p> <p>Agenda Item # _____</p> <p>Year <u>2020</u></p> <p>Changes to Existing Reporting [X]</p> <p>New Reporting Requirement []</p> <hr/> <p style="text-align: center;"><u>REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</u></p> <p>No Impact [X]</p> <p>Modifies Required Disclosure []</p> <hr/> <p style="text-align: center;"><u>DISPOSITION</u></p> <p>[] Rejected For Public Comment</p> <p>[] Referred To Another NAIC Group</p> <p>[] Received For Public Comment</p> <p>[] Adopted Date _____</p> <p>[] Rejected Date _____</p> <p>[] Deferred Date _____</p> <p>[] Other (Specify) _____</p>
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BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|--|---|--------------------------------------|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input checked="" type="checkbox"/> INSTRUCTIONS | <input type="checkbox"/> CROSSCHECKS |
| <input type="checkbox"/> QUARTERLY STATEMENT | <input type="checkbox"/> BLANK | |
| <input type="checkbox"/> Life, Accident & Health/Fraternal | <input type="checkbox"/> Separate Accounts | <input type="checkbox"/> Title |
| <input checked="" type="checkbox"/> Property/Casualty | <input type="checkbox"/> Protected Cell | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Health | <input type="checkbox"/> Health (Life Supplement) | |

Anticipated Effective Date: Annual 2020

IDENTIFICATION OF ITEM(S) TO CHANGE

Modify the Annual Statement Instructions to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

1. The factor for reinsurance recoverable from uncollateralized, unrated reinsurers is being updated by PCRBC WG to move towards a charge that is more aligned with risk-indicated factors used by the ratings agencies.
2. With respect to the broader implementation of the Covered Agreement, the PCRBC WG identified the need to eliminate the different treatment of uncollateralized reinsurance recoverable from authorized versus unauthorized, unrated reinsurers.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

** This section must be completed on all forms.

Revised 7/18/2018

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

SCHEDULE F – PART 3CEDED REINSURANCE
AS OF DECEMBER 31, CURRENT YEAR

=====**Detail Eliminated to Conserve Space**=====

Column 34 – Reinsurer Designation Equivalent

Following is a listing of the valid codes.

1	2	3	4	5	6	7
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Utilize the table below and report a reinsurer designation equivalent code of 1 through 6 (where 6 represented vulnerable 6 or unrated) ~~or 7 (for unrated authorized reinsurers)~~. The equivalent designation category assigned will correspond to a current financial strength rating received from an approved rating agency as outlined in the table below. Ratings shall be based on interactive communication between the rating agency and the assuming insurer and shall not be based solely on publicly available information. If the reinsurer ~~is unauthorized and~~ does not have at least one financial strength rating, it should be assigned the “Vulnerable 6 or Unrated ~~Unauthorized~~ Reinsurers” equivalent rating. ~~If the reinsurer is authorized and does not have at least one financial strength rating, it should be assigned the “Unrated Authorized Reinsurers” equivalent rating.~~ Amounts recoverable from unrated voluntary pools should be assigned the “reinsurer equivalent code of 3.” An authorized association including incorporated and individual unincorporated underwriters or a member thereof may utilize the lowest financial strength group rating received from an approved rating agency.

Reinsurer Designation Equivalent Category							
Code	1	2	3	4	5	6	7
Description	Secure 1	Secure 2	Secure 3	Secure 4	Secure 5	Vulnerable 6 or Unrated Unauthorized Reinsurers	Unrated Authorized Reinsurers
Best	A++	A+	A	A-	B++, B+	B, B-, C++, C+, C, C-, D, E, F
S&P	AAA	AA+, AA, AA-	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R
Moody's	Aaa	Aa1, Aa2, Aa3	A1, A2	A3	Baa1, Baa2, Baa3	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C
Fitch	AAA	AA+, AA, AA-	A+, A	A-	BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R

Column 35 – Credit Risk on Collateralized Recoverables

Following is a table of factors applicable to the respective reinsurer designation equivalent categories in Column 34

Code	1	2	3	4	5	6	7
Factor	3.6%	4.1%	4.8%	5.0%	5.0%	5.0%	5.0%

Column 36 – Credit Risk on Uncollateralized Recoverables

Following is a table of factors applicable to the respective reinsurer designation equivalent categories in Column 34

Code	1	2	3	4	5	6	7
Factor	3.6%	4.1%	4.8%	5.3%	7.1%	14.0% 14.0%	10.0%


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Detail Eliminated to Conserve Space
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